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FIRST COUNTRY COOPERATION FRAMEWORK FOR THE COOK ISLANDS (1998-2002)

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INTRODUCTION

1. The first country cooperation framework (CCF) for the Cook Islands covers the period 1998-2002. It drew upon the UNDP advisory note, which, in turn, was based upon consultation with the Government of the Cook Islands, as well as representatives of civil society organizations, the private sector and donors, in August 1997. It also took into consideration the mid-term review of the third country programme, which covered the period 1992-1996.

2. Due to its preoccupation with the serious economic and financial crisis that the country is currently experiencing, the Government was unable to make firm decisions on its priorities for UNDP support until the completion, in July 1997, of its 1997/98 budget. It became apparent during the course of the year that the process to formulate the CCF could not be completed in time to present the document to the Board at its third regular session 1997. Under these circumstances, the Administrator found it necessary to extend the period of the third country programme to cover the year 1997. The Administrator wishes to bring this to the attention of the Executive Board at its current session.

3. Accordingly, during 1997, the UNDP country office worked with the Government to: (a) better define the priority areas for the first CCF; (b) provide advice on ways to advance the plans of action elaborated at the various United Nations-sponsored global conferences and summits; (c) help to mobilize resources from other donors; and (d) move ahead with programme formulation for the first CCF.

I. DEVELOPMENT SITUATION FROM A SUSTAINABLE HUMAN DEVELOPMENT PERSPECTIVE

Sustainable human development situation

4. The Cook Islands, with an estimated per capita gross domestic product of approximately $5,720 in 1996, also had the highest human development index among the independent and self-governing Pacific Island States in 1994. This achievement was made possible by a range of factors, including a high level of investment in infrastructure and social services, much of it is underwritten by foreign aid and loans. The economy expanded at a steady rate of 6 per cent per year throughout the 1980s and the early 1990s, driven mainly by a high level of performance in the tourism industry, where significant income was generated. But government employment, which had accounted for 59 per cent of the total labour in 1993, and government-related economic activities, also underwritten by aid and loans, contributed the most to the relatively high standard of living enjoyed by the population of the Cook Islands during the past decade. Since 1990, the overall economic performance has, however, been characterized by fluctuations in growth, pressures on the government budget and a severe build-up of external indebtedness. The recession of the last two years had highlighted the country's vulnerability to external shocks and the structural imbalances of the economy, and the current fiscal deficits and debt are a reflection of past weaknesses in public finance and economic management. By early 1996, the Government's total debt had reached 63 million New Zealand dollars ($NZ).

5. In response to the crisis, the Government, in consultation with its key development partners, the Government of New Zealand and the Asian Development Bank (AsDB), with support from UNDP and the Government of Australia, formulated its Reform Agenda, which is centred on principles of good governance. Following Cabinet approval, the Government of the Cook Islands formally presented its Reform Agenda to its development partners at a Consultative Group Meeting, held in Fiji, in June 1996. The five-pronged strategy of the Reform Agenda is outlined below:

(a) Public sector reform. Since June 1996, the Government has made major changes in both the organization and size of the public sector. The number of government departments has been reduced from 52 to 22, and the number of employees in public service has been reduced from 2,905 to 1,461. Suitable public sector management courses, tailored to the various needs of civil servants, have begun to be implemented through in-country training and fellowships to institutions in New Zealand, Australia and other institutions in the Pacific region. There is a need to strengthen capacity in and to streamline the institutional arrangements for delivering public sector output, consistent with legislation recently passed, aimed at raising the level of efficiency in the civil service. Meanwhile, to cushion the severity of the cuts, the Government of New Zealand and AsDB, through a transition project, have assisted the movement of displaced workers from the public sector to the private sector, through measures such as the provision of bridging funds, training workshops, counselling and access to credit. However, to date, relatively little progress has been made in the area of rationalizing central government costs as they relate to the administration of outer islands, even though a Local Government Act was recently passed, supporting the devolution of administrative and financial responsibilities to the Island Councils. Recognizing the disparities in the standard of living between the capital, Rarotonga, and the outer islands, an integral part of this effort will require capacity-building and upgrading the revenue-generation capacity of the local governments. It should be noted that the key recommendations of a UNDP-financed public sector reform project (1994) were incorporated in the Government's Reform Agenda;

(b) Financial and Economic Management. Since June 1996, the Government, after negotiations with its major creditors, has launched an action plan to reduce and reschedule its debt. Appropriate fiscal measures are also being instituted. Government expenditure has been reduced from a deficit budget of $69 million in 1995/96 to a balanced budget of $NZ 43 million in 1996/97, with a projected balanced budget of $NZ 43 million for the next biennium. Legislation has been passed to enforce better financial responsibility, debt management and accountability;

(c) Private sector development. In the past, an oversized public sector bolstered by increased debt and overseas budgetary support tended to constrain the growth of the private sector and, in particular, expansion of the productive base of the economy. The reform strategy includes measures for the improvement of access to land and capital, divestment of state-owned enterprises, and improvement of the policy and regulatory environment for overseas and local investors;

(d) Development of the productive sectors. The Cook Islands has significant potential in three sectors: tourism, agriculture and marine resources. The reform strategy sought to identify and remove critical constraints to the expansion of private-sector activities in these areas. Among the measures being implemented are better marketing practices, investment promotion, provision of basic infrastructure, improved access to credit, and removal of price-distorting policies. The strategy also recognizes that the outer islands have a significant contribution to make to economic recovery. The Southern and Northern Groups are capable of generating significantly greater income, as long as basic infrastructure is maintained. Consistent with the new Local Government Act, outer island development will involve greater decision-making and participation of the members of the community;

(e) Sustainability and equity issues. Because of its significant impact on the economy, the reform agenda is being undertaken with the widest possible level of community consultation, ensuring that the most vulnerable and disadvantaged groups are protected and empowered. These groups not only include displaced public servants but residents of outer islands as well. Every effort is also being made to ensure that the country's natural resources and cultural heritage are reasonably protected.

6. While there is not a high rate of poverty in the Cook Islands, the downsizing of the public sector has created a degree of vulnerability and inequality that has not been experienced before, as a result of the reduced number of paid jobs both in the Government and in the private sector and because of a lack of versatility in job skills. Many families have experienced hardship, and there is increasing pressure on the subsistence sector, which has been neglected over the years. With free access to New Zealand and Australia, migration remains an attractive option for many Cook Islanders. A household income and expenditure survey is expected to provide an indicator on the degree of emerging vulnerability and inequality in the country for women, men and children.

7. Although women are well-integrated into all aspects of Cook Island society, the Government is committed to ensuring that they are integrated into economic activities as well as into reform programmes, through the provision of equal access to social and economic opportunities for advancement. Women's groups are active in Rarotonga and in all the outer islands. According to a survey by AsDB there are fewer women than men employed in the formal sector, with women representing 37 per cent of the paid work force. In the public sector, women actually had slightly higher average wages than those of men. Women were also the driving force behind the subsistence sector (outnumbering men five to one), supporting home gardening, tending of livestock, and engaging in subsistence fishing. The upcoming UNDP-funded household income and expenditure survey will gauge the contribution of women in economic activities within both the formal and informal sectors, measuring, among other things, changes in family structure, labour activity and consumption patterns. Under the auspices of development assistance from the Government of New Zealand, capacity-building activities to establish mechanisms that promote the advancement of women are being carried out in the Women's Division of the Department of Internal Affairs.

II. RESULTS AND LESSONS OF PAST COOPERATION

General overview of external assistance

8. Official development assistance in general, primarily aid from the Government of New Zealand, has done much to advance the goals and objectives of the Government and people of the Cook Islands, particularly in the area of human development. The preference of the Government and donors for channelling aid to social services over the last 10 years has been particularly fortuitous for the SHD agenda. At the same time, the bias in favour of consumption has been allowed to develop to the extent that very little aid supported investment and production. Consequently, economic activities and living standards in recent years increasingly have come to depend on unsustainable foundations of debt and public spending.

9. From an SHD perspective, the greatest challenge at present is to ensure that the inevitable drop in living standards is arrested before it triggers emigration and further capital flight, as people and investors lose confidence. The Government now recognizes that it is critical to redirect the role of aid to create a platform on which to build a more sustainable form of economic and human development. Without aid to provide alternative employment and livelihood options, the Government fears that people will lose hope and migrate to New Zealand.

The role and contribution of UNDP

10. The third country programme for the Cook Islands, which covered the period 1992-1996, focused primarily on three main areas of cooperation, namely: (a) tourism development; (b) outer island development; and (c) public sector reform. Assistance for tourism development was provided in the form of advisory personnel and training equipment for the Hospitality and Tourism Training Center. Assistance provided to the outer islands concentrated on the improvement and upgrading of the electricity supply, as well as tourism-related training. In the area of public sector reform, UNDP provided assistance in the early stages of the restructuring of the Government's planning, financial and economic management departments, a process which is now being continued with assistance from AsDB and the Government of New Zealand under the Reform Agenda. Support was also provided in two areas outside of the main country programme through the Special Programme Resource-funded fire prevention and mitigation project and the human resource development project, an umbrella project covering United Nations Volunteers (UNV) assistance to various government departments. The Cook Islands has also benefited from UNDP regional programmes and projects in such areas as disaster management, public sector reform, biodiversity conservation, environmental management, agriculture and fisheries. The combination of programmes, projects and forms of support represented an appropriate response to the Cook Islands' development priorities. Moreover, UNDP-supported projects continue to be closely aligned with and very much anchored in national priorities.

11. At the mid-term review of the third country programme in 1995, it was agreed that the slight shift in government policy towards outer island development, public sector reform and human resource development reaffirmed the

relevance of the UNDP focus areas. As a result of the review, it was broadly agreed, however, to focus UNDP support more narrowly, on employment creation through the training for the tourism sector project, and on assistance to disadvantaged groups of people on the outer islands through the outer islands development project. The participants in the review also re-affirmed their support for the public sector reform programme.

12. It was agreed at the review that the lack of an effective counterpart system continued to be a problem and was one of the causes of failure to make progress in the area of capacity-building. This observation applied in particular to the poor prospects of Cook Islands trained personnel being appointed in the near future to take over the functions of UNV specialists, who invariably ended up filling gaps in line ministries. Because of this long-standing problem, it was decided that project design should be more realistic and that UNDP resources should only be used in support of high-priority government programmes where effective capacity-building and sustainability could be assured. Consequently, it was decided that the provision of "gap-filling" UNV specialists in line positions would be phased out by the end of 1996 and the UNV positions under the human resource development project would not be extended beyond the end of the ongoing contract period. The Government is fully aware of the problem and has committed itself to providing appropriate counterparts for the new programme.

13. The participants in the mid-term review also agreed that past experience with national execution had been mixed. While there had been no major problem with management and decisions by the Government, reporting had been a problem. It was noted that the extent of responsibility pertaining to the executing agent had not always been sufficiently clearly defined and the government personnel had not received any training for the tasks involved. It was therefore agreed that training and other measures were needed to strengthen the Government's capacity for national execution. Subsequently, assistance under the regional programme logistical support project as well as attachments in the UNDP office in Apia by Government staff were implemented as measures to strengthen the Government's capacity.

14. From the perspective of SHD, the need to target employment creation was greatly reinforced towards the end of the third country programme, owing to job cutbacks in the public sector. If alternative employment or livelihoods are not found for redundant public servants and school leavers, deterioration in living standards and further out-migration are likely to result.

III. PROPOSED STRATEGY AND THEMATIC AREAS

15. In the context of the programme approach, the Government's Reform Agenda provides a coherent framework for government and donor interventions. Commensurate with available resources, the Government of the Cook Islands designated AsDB and the Government of New Zealand to take the lead role in assisting its effort to formulate and implement the Reform Agenda, with support from the Government of Australia and UNDP. A direct contribution of approximately $NZ 7 million per year had been a feature of New Zealand official development assistance to the Cook Islands until fiscal year 1995/96. For the

fiscal year 1996/97, at the request of the Cook Islands, the direct cash contribution converted to project assistance to help reduce the size of the civil service. An additional amount of approximately $NZ 12 million was approved to support other components of the reform programme during 1996/97. The contribution of AsDB is estimated to be around $US 5 million.

16. In order to promote SHD through programmes in direct support of the Government's priorities, the main elements of the overall strategy for the first CCF are: (a) to concentrate resources in fewer high-priority areas; and (b) to focus on capacity-building in support of SHD. Given the relevance of the outer island devolution programme to SHD, future capacity-building activities will be extended to subnational entities. Greater use will be made of the technical cooperation among developing countries (ICDC) modality, and the UNV programme will be made even more effective by reinforcing the focus on capacity-building for SHD.

17. Commensurate with available resources, only one thematic area has been identified for UNDP support, namely, the area of governance. Based on a series of extensive consultations with the Government of the Cook Islands and with other donors, UNDP will directly support the national Reform Agenda through the public sector reform programme. UNDP had earlier played a catalytic role in public sector reform, as manifested in the adoption by the Cook Islands of key recommendations of a UNDP-financed public sector reform project (1994), which was later picked up for funding by the Government of New Zealand and AsDB. Under the first CCF, UNDP will complement ongoing efforts to advocate good governance for the outer islands, through the government's devolution programme.

Outer Islands Devolution Programme

18. Although some milestones have been achieved in the first 12-month period of the Reform Agenda, including in the area of public sector reform, relatively little attention has been devoted to operationalizing public sector reforms as they relate to outer island administration. As a first step in this direction, the Outer Island Devolution Programme will focus on the development of the overall policy framework and the structure of the devolution programme to each of the outer islands. In addition, an assessment will be made of the operational needs of the programme, including budgetary and financial requirements, capacity-building, management and accountability systems, human resource development, and adequacy of the legal framework. Upon completion of capacity assessment, it is envisaged that UNDP will also fund selected capacity-building activities, in consultation with the Government and other donors, with priority likely to be given to the management of entrepreneurial programmes. The Pacific regional governance programme is envisaged to play an important role in backstopping UNDP interventions, through the mobilization of short-term consultants in key areas to provide options and to assist in the formulation of the necessary framework for the devolution programme.

19. The programme is expected to result in:

(a) Draft recommendations presented to the Government of the Cook Islands on: (i) the framework for the devolution programme; (ii) the structure and procedures for operationalizing devolution; (iii) the requirements and steps

needed to phase out the Ministry of Outer Island Development in Rarotonga by 1999, and on other measures necessary to reduce central government costs as they relate to the administration of outer islands; (iv) capacity-building needs for the devolution programme. The recommendations on the framework will guide the Government in its decision-making processes and in the ultimate establishment of a strategic and policy framework to bring greater coherence to the processes of devolution, also facilitating the coordination by the Government of the Cook Islands of donor inputs towards outer island development, in the context of the Reform Agenda;

(b) Legislation in support of devolution drafted and adopted by the Government will result in the empowerment of the Outer Island Councils to start diversifying and stimulating economic production, which they are currently unable to undertake;

(c) Increased participation and ownership of outcomes by the local community, reinforcing the traditional system of governance;

(d) Strengthened capacity of the Island Councils to manage key aspects of the devolution programme and processes;

(e) Strengthened capacity for management of entrepreneurial programmes by local entrepreneurs.

20. Under the auspices of aid from the Government of New Zealand, funding for key infrastructure development for some of the outer islands is envisaged in the area of water, waste management, health, education, sustainable energy sources and environmental management, and agriculture.

IV. MANAGEMENT ARRANGEMENTS

Execution and implementation

21. During the third country programme, several projects in the Cook Islands were executed nationally. The Government would like to continue to use the national execution modality in order to build national capacity in programme framework formulation and implementation. Whereas most government departments are in a position to manage projects, national execution involves specific reporting and accountability requirements that are different from normal government procedures. There is a need to provide support through training to enable government officials involved to familiarize themselves with UNDP procedures and requirements.

22. United Nations agencies may play important implementing and supporting roles within the framework of the Government's execution responsibilities. However, the Government expects that, under national execution, the implementation role of the United Nations agencies will be minimized, in comparison to their role in technical backstopping. Some agencies will either implement certain programme components or provide technical backstopping to government implementation. Other possible support functions include cost-effective modalities such as the provision of short-term consultants instead of

long-term experts, and the use of national capacity where national experts are available, the United Nations Short-Term Advisory Resources and Transfer of Knowledge through Expatriate Nationals modalities for Cook Islanders abroad, national volunteers, and UNV specialists.

Monitoring and evaluation

23. With regard to monitoring and evaluation, the United Nations Consultative Committee on Programme and Operational Questions guiding principles for a monitoring and evaluation methodology for the programme approach will be followed, in order to ensure that the major aspects of the programme approach are integrated into the first CCF at its initiation. Accountability will be monitored through three different dimensions: substantive (relevance, impact and success); managerial (financial, budgeting, monitoring); and audit-related. The programme and projects will be subject to the standard UNDP monitoring and review process, including annual tripartite reviews to evaluate progress and make necessary improvements in implementation. The first CCF will be subject to a triennial review, at which progress will be evaluated and decisions made on the balance of programmable resources.

Resource mobilization

24. Resource mobilization targets for the first CCF are provided in the annex. In addition, Government cost-sharing, third-party cost-sharing, and resources from other UNDP-managed funds (e.g., the Global Environment Facility, the United Nations Development Fund for Women, UNV and TCDC) will be sought.

Annex

RESOURCE MOBILIZATION TARGET TABLE FOR THE COOK ISLANDS (1998-2002)

(In thousands of United States dollars)

Source	Amount	Comments
UNDP CORE FUNDS		
Estimated carry-over	12	
TRAC 1.1.1	217	Assigned immediately to country.
TRAC 1.1.2	0 to 66.7 per cent of TRAC 1.1.1	This range of percentages is presented for initial planning purposes only. The actual assignment will depend on the availability of high-quality programmes. Any increase in the range of percentages would also be subject to availability of resources.
SPPD/STS	60	
Subtotal	289[a]	
NON-CORE FUNDS		
Government cost-sharing	100	
Sustainable development funds	150	Global Environment Facility
Third-party cost-sharing	200	
Funds, trust funds and other	235	
	of which:	
Poverty Strategy Initiative	115	
Partners in Development Programme	20	
United Nations Volunteers	100	
Subtotal	685	
GRAND TOTAL	974[a]	

[a] Not inclusive of TRAC 1.1.2, which is allocated regionally for subsequent country application.

Abbreviations: SPPD = support for policy and programme development; STS = support for technical services; and TRAC = target for resource assignment from the core.